



Director of
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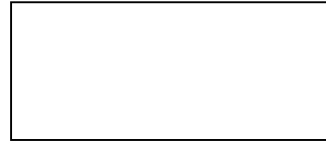
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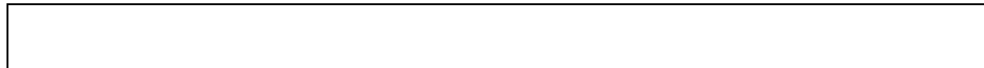
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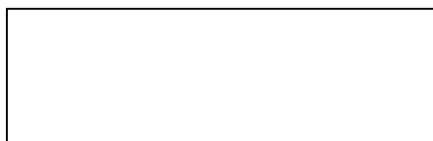


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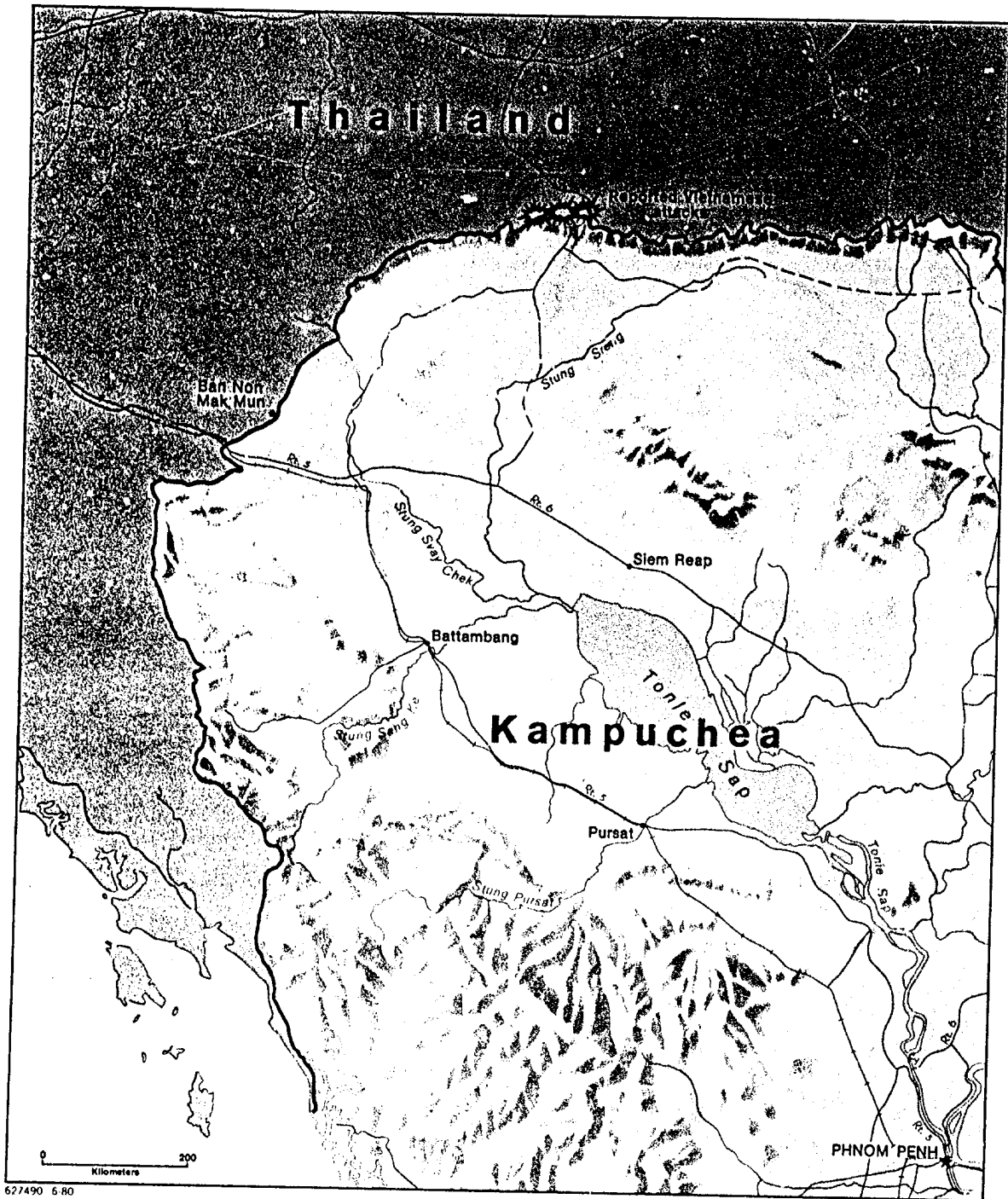
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SITUATION REPORTS

VIETNAM-KAMPUCHEA-THAILAND

Some fighting apparently is continuing along parts of the Thai-Kampuchean border.

[REDACTED] Pol Pot's forces reportedly have intensified their attacks against Vietnamese communications and supply lines in northern Kampuchea and southern Laos, and probably were responsible for a recent attack on the rail line between Phnom Penh and Pursat. [REDACTED]

Chinese-Vietnamese Border

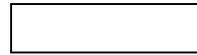
[REDACTED] news reports of a massive Chinese buildup along the Vietnamese border in response to Vietnam's attack into Thailand. Over the past year, the Chinese have strengthened their forces near Vietnam

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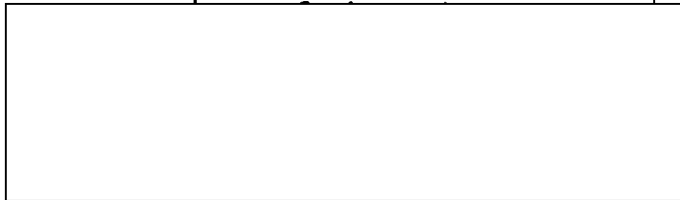
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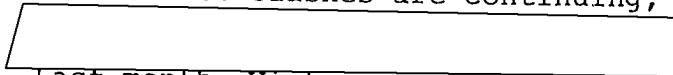
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Chinese forces in place could initiate a wide range of military actions against Vietnam



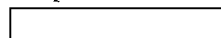
Border clashes are continuing,



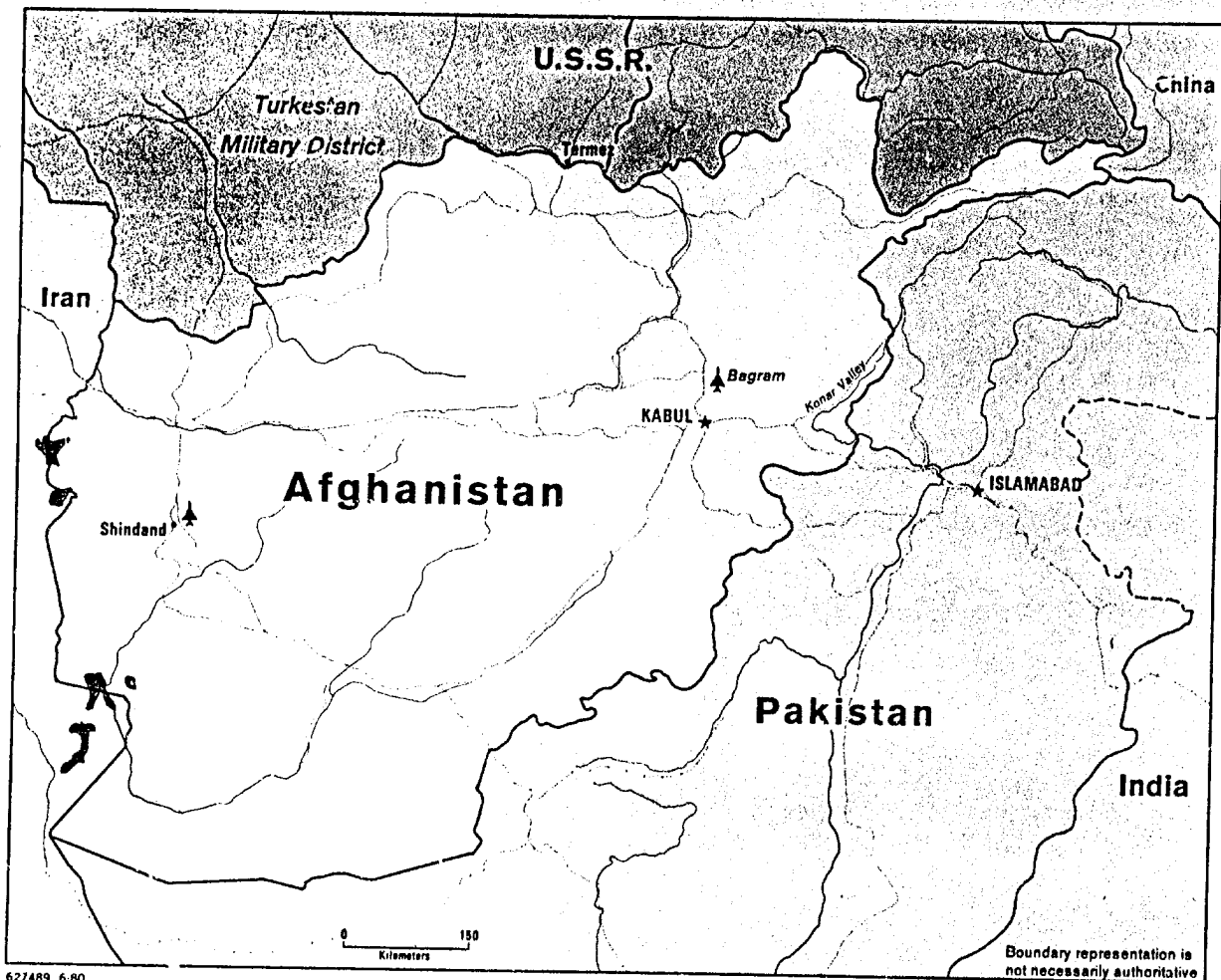
Last month, Vietnam accused China of initiating 246 clashes along the border, and more have occurred this month.



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USSR-AFGHANISTAN

The limited withdrawal of Soviet forces from Afghanistan continues.

The decision to withdraw troops may have been made very recently.

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BRIEFS AND COMMENTS

GREECE: Status of NATO Reentry Bid

The Rallis government may withdraw its application for full NATO reentry and reconsider the status of US bases if Greece is not a full member of NATO before the next election.

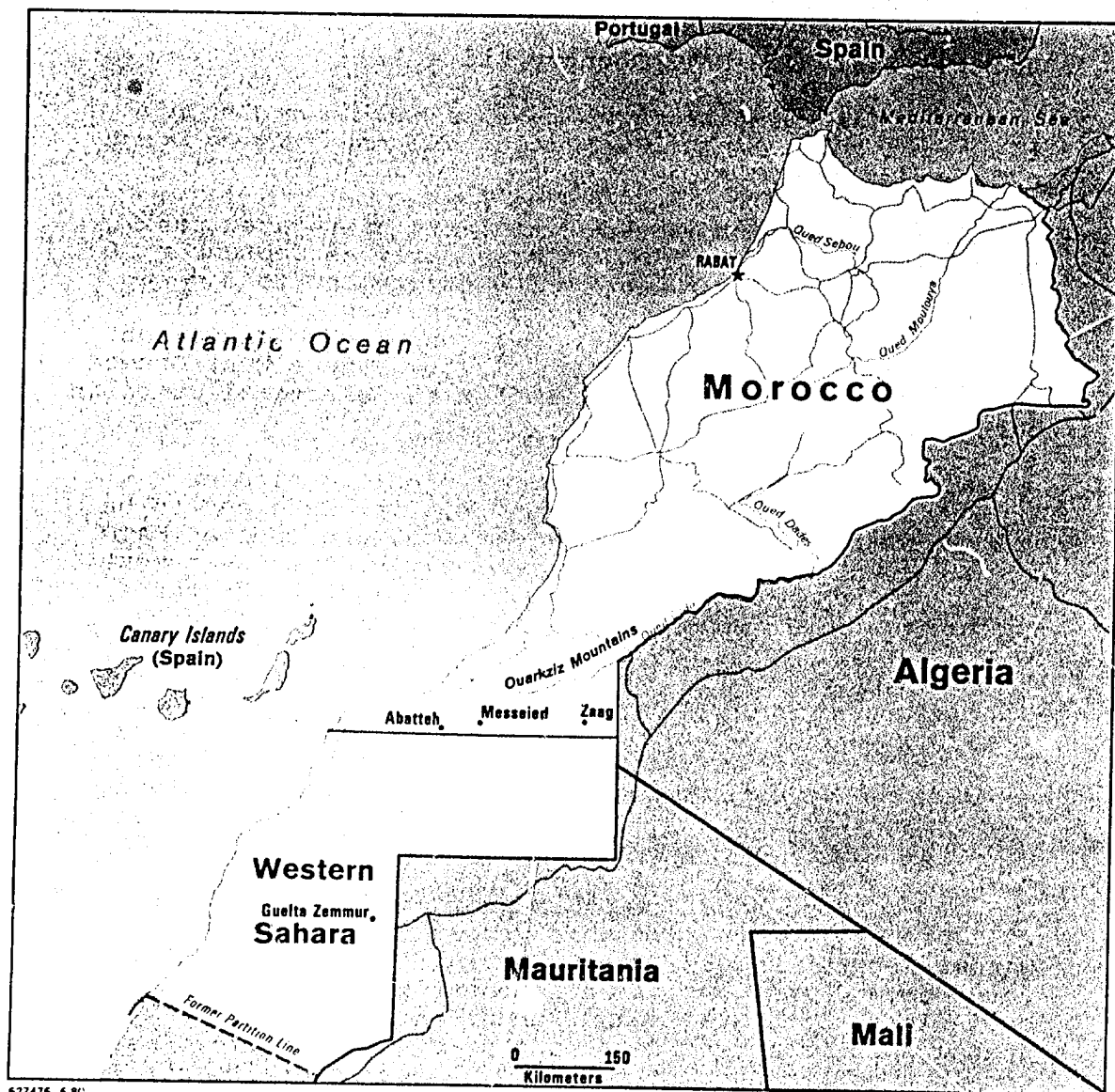
The government does not want opposition leader Papandreou and his Pan-Hellenic Socialist Movement to be able to exploit the issue. Papandreou, who opposes NATO reentry, has been gaining in popularity. The government could be defeated if it settled for less than the terms that existed before Greece withdrew from the military arm of NATO in 1974 to protest the Turkish invasion of Cyprus.

Athens also is linking US access to military bases and a new Defense Cooperation Agreement with the reentry issue. The government announced recently that a future US military presence in Greece would not be tenable outside the NATO framework.

The Greeks hope that this pressure on Washington will produce a more favorable proposal

Athens' tougher stance also is intended to counteract what it views as growing Western support for Turkey because of its strategic value.

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MOROCCO - WESTERN SAHARA: Military Situation

Moroccan military forces are preparing for an attempt by Polisario Front guerrillas to achieve a major victory before or during next week's OAU summit conference, which will consider the issue of recognizing the Polisario's Saharan Democratic Arab Republic.

The Moroccans hope to sustain the momentum they seem to have gained since the relief of the isolated garrison at Zaag last month.

The government attributes the recent decline in guerrilla activity to its effective patrols and to its interdiction of insurgent infiltration routes. The Moroccans have withstood attacks on outposts at Abatteh and Messeied, and they may have inflicted more casualties on the Polisario than they took defending against a recent assault on Guelta Zemmur.

Although the Moroccans believe that they are improving their position in the four-year-old conflict, they are aware of how fragile their recent successes could prove. Once the Moroccans relieved Zaag, the Polisario may have decided to muster its resources for an operation--such as seizing a major population center--that would provide a basis for its territorial claims on Western Sahara.

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CHINA: Energy Conservation

China is stepping up its energy conservation program in response to a marked slowdown in the growth of its energy production.

A Vice Minister with the State Economic Commission stated last week that energy use quotas will be levied against industries using large amounts of energy. In addition, China will allocate \$1.3 billion this year to improve the energy efficiency of its industry.

Led by rapid growth in oil production, China's energy output increased at close to a 9-percent annual rate from 1970 through 1978. Last year energy output increased by only 2.8 percent; coal output was up 3 percent and oil was up less than 2 percent.

Energy production will increase at an even slower pace this year because of the overemphasis on production during the last decade. Some Chinese officials have stated that production might not grow and may even decline. Considerable resources must now go toward exploration and development of new oil and coal fields, output from which will not be available for years.

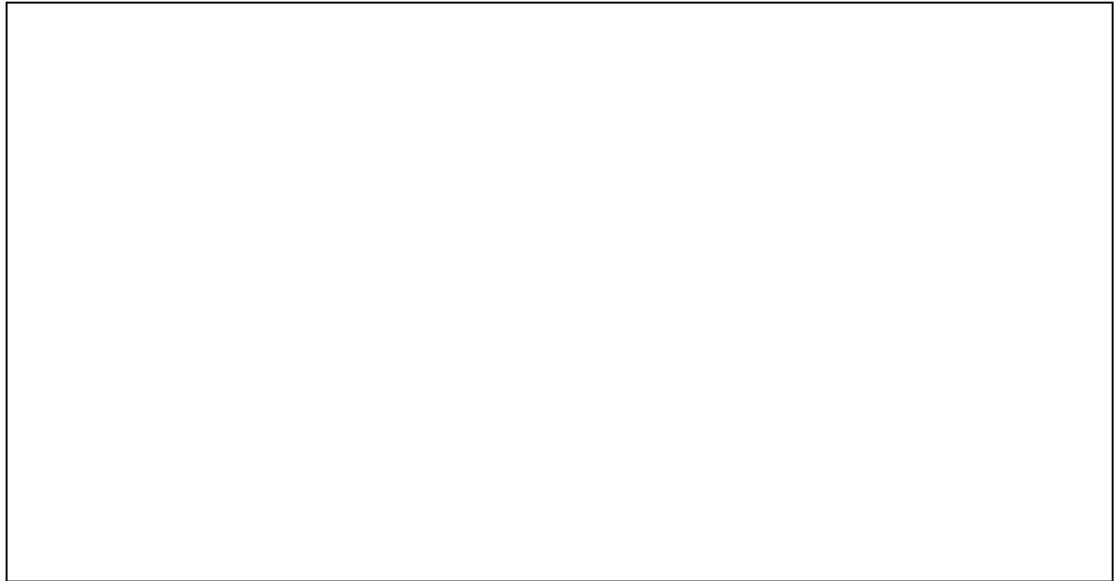
In addition to cutting energy usage, China wants to shift consumption away from oil. Beijing would like to save approximately 600,000 barrels per day--28 percent of current production--that is burned in power and industrial plants by converting the installations to coal.

Conservation gains are becoming increasingly difficult and costly for Chinese industry. Tough policy measures including energy use quotas indicate that the Chinese expect energy shortages will begin to constrain industrial growth.

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WEST GERMANY - EC: Sanctions Exemptions

Bonn is considering issuing special export licenses to a few small West German firms that signed contracts with Iran after 4 November. [redacted]

[redacted] such licenses would be governed by stringent guidelines and be granted only in "special hardship cases." [redacted]

[redacted] Bonn emphasizes that the action would not signify a retreat from the EC sanctions decision. Under the agreement, member states may authorize exemptions after consultation with the other EC governments and the Commission. [redacted]

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IRAN: Refinery Shutdown

Iran's new refinery at Esfahan, which is capable of producing 200,000 barrels per day, has been shut down

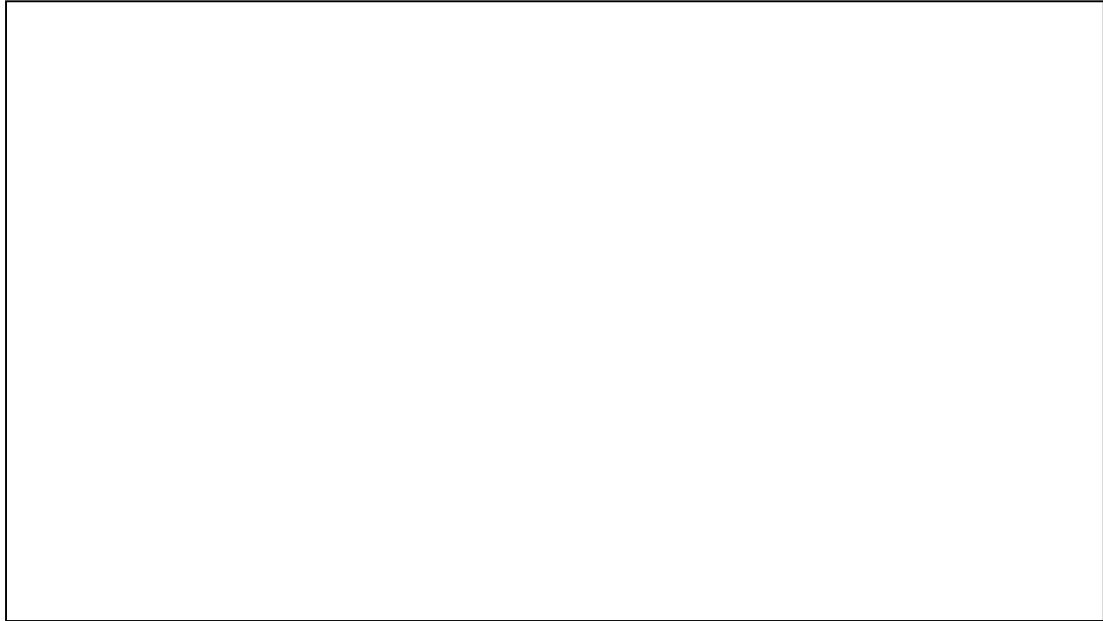
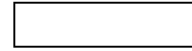
shutdown could cause at least regional oil product shortages and add to Tehran's economic problems.

The first of two 100,000 barrels-per-day refining units had been put into operation early this year, and the second had been scheduled for startup soon. The West German construction firm Thyssen, builder of the refinery, pulled out its workers in late May

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SPECIAL ANALYSES

VIETNAM-THAILAND: Implications of Incursion

Vietnam's intrusion into Thailand seems unlikely to achieve all of Hanoi's objectives and thus may be followed by further cross-border attacks. The Thai have voiced determination to stand up to Hanoi and have been buoyed by expressions of ASEAN support. Beijing has condemned the Vietnamese move.

The Vietnamese action--the first serious military confrontation with Thailand since Hanoi's invasion of Kampuchea in December 1978--is primarily intended to force Thailand to cease its support of Kampuchean resistance groups. More specifically, it is designed to halt Thailand's repatriation of Khmer refugees and to disrupt cross-border deliveries of supplies to resistance forces.

The attack apparently was timed to coincide with the beginning of the refugee repatriation program last week but seems to have been intended to demonstrate on a broader scale Vietnam's determination to maintain control over Kampuchea despite resistance activities and international opposition. Coming only days before the meeting in Kuala Lumpur of the foreign ministers of the Association of Southeast Asian Nations and Secretary of State Muskie's visit there tomorrow, the incursion also is designed to intensify ASEAN differences over policy toward Hanoi.

Vietnamese ground forces have not yet attacked camps controlled by Pol Pot's resistance forces, which would involve more intense fighting. This suggests that Hanoi hopes its incursion will have the intended effect on Thailand without recourse to more sustained military action, which could result in increased Chinese--or even US--involvement.

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Bangkok's Reaction

Vietnam may have underestimated the degree of Thai nationalism and determination. Although Bangkok has publicly played down the incident, the initial Thai reaction has been to reaffirm existing policies.

The government, moreover, has halted delivery of relief supplies by air and sea from Thailand to Kampuchea.

ASEAN Reaction

The attack, in fact, has set back Vietnamese attempts to split ASEAN. In a joint statement, the ASEAN foreign ministers denounced the attack as "irresponsible" and a grave threat to Thailand and Southeast Asia.

Malaysia and Indonesia continue to fear that the Kampuchean conflict, by spilling over into Thailand, may undermine regional stability, and they probably will continue to urge Thailand to accept the reality of Vietnamese domination of Indochina as a buffer to Chinese expansionism. Now, however, they will demand credible and significant Vietnamese concessions in return for such recognition.

ASEAN leaders are particularly incensed by the duplicity of Foreign Minister Thach, who only last Saturday said in Indonesia that Vietnam would not send its troops into Thailand. Thach made matters worse after the attack by claiming that reports of Vietnamese involvement in the attack were rumors and distortions.

The Kampuchean problem will dominate the ASEAN foreign ministers' meeting. In addition, ASEAN members will use Secretary Muskie's visit to press for a strong US reaction to the incursion and to probe US policy toward China and toward the seating of Pol Pot's regime in the UN.

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Caution in Beijing

Beijing so far has responded cautiously to Vietnam's action. In an official statement Wednesday, Beijing warned Vietnam that it faces "grave danger" if it persists in military adventures in Thailand and put Hanoi on notice that the Chinese are watching these developments closely.

China's caution probably stems from uncertainty over the extent of the Vietnamese operation and a desire to gauge Thai, US, and ASEAN reaction. If the attacks into Thailand continue or escalate, Beijing may feel compelled to increase its military activity along the Sino-Vietnamese border.

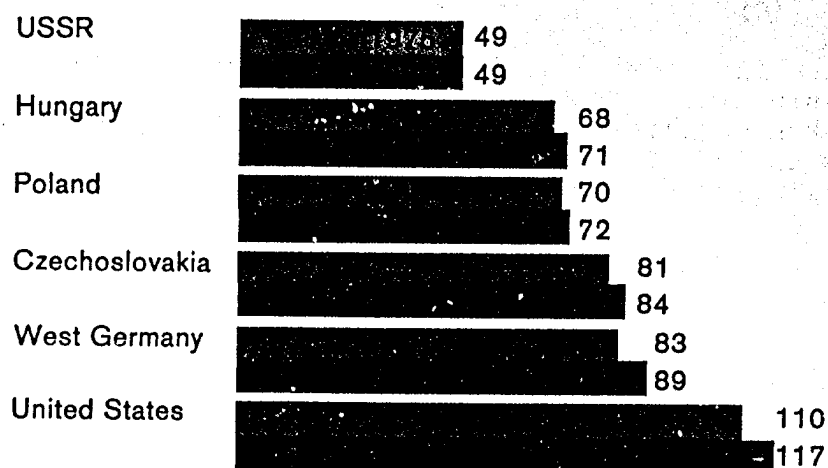
Thus far, however, China seems to be playing down the possibility of retaliation.

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Per Capita Meat Consumption¹

Kilograms



¹ Comparable basis, includes red meat, poultry, and edible offals.

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USSR: Food Shortages

[redacted]

Soviet consumption of meat and other quality foods is down somewhat because of the poor grain harvest in 1979 and the restricted availability of US grain. This shortage will increase consumer discontent and further undermine worker incentives. [redacted]

Per capita meat consumption, a standard by which the Soviet consumer gauges his welfare, probably will decrease by about 3 percent in 1980, returning to about the 1975 level. During the first four months of this year, milk production was up less than 1 percent, mainly because of the livestock feed shortage. [redacted]

Food shortages in the stores already appear severe and widespread in the USSR, and they are increasing.

[redacted] three-hour queues for meat are not unusual and that local rationing systems are common.

[redacted]

[redacted]

[redacted] Soviet citizens have told US officials that shortages of meat, dairy products, fruit, and vegetables are the worst in many years. New special distribution systems operated by some industrial enterprises and institutions are securing meat for their employees and limiting supplies for the rest of the population. [redacted]

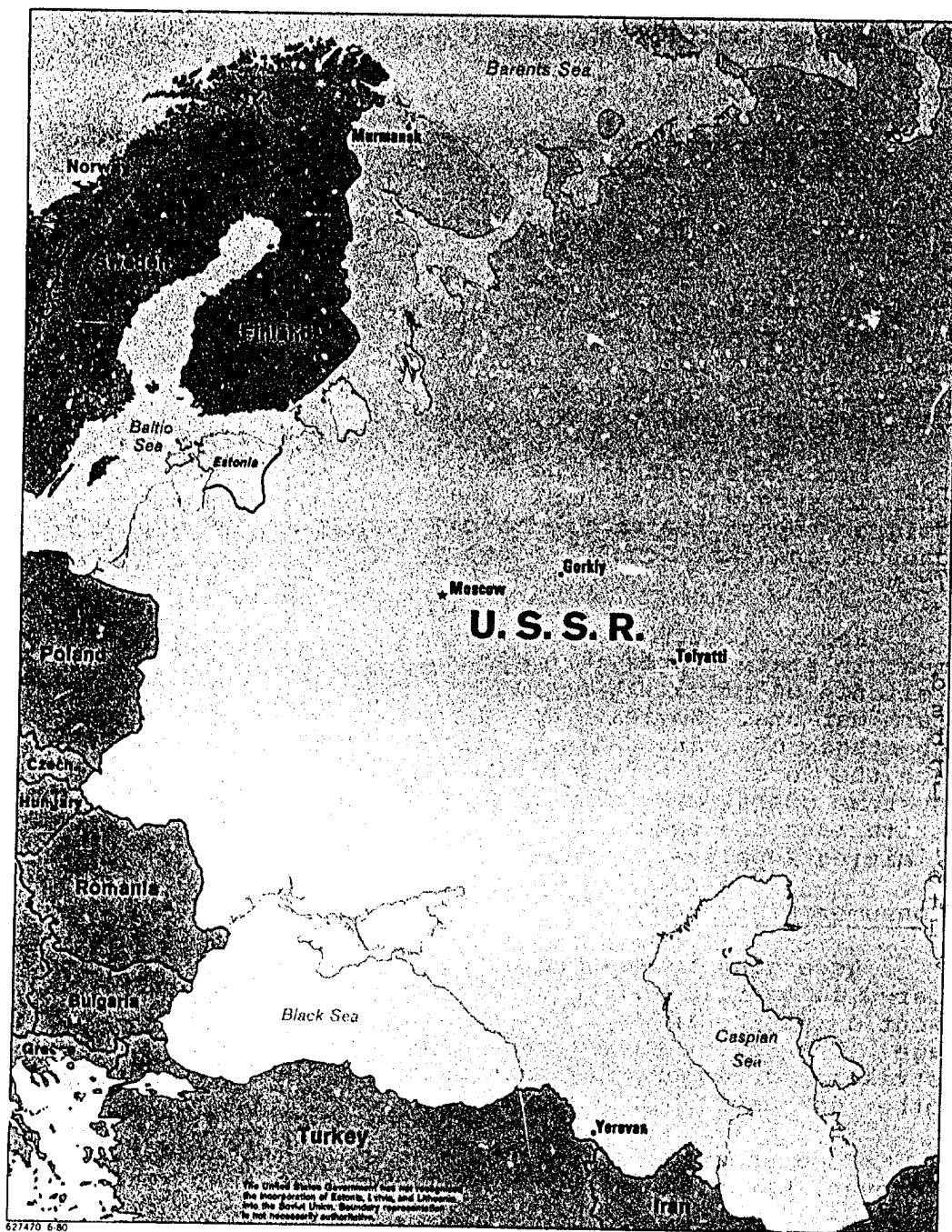
Consumer Discontent

According to Western press reports, workers at the large automobile and truck plants in Tolyatti and Gorkiy went on strike in May, partly because of the food shortage. The Soviet authorities apparently mollified the strikers by temporarily increasing supplies of food and other consumer goods. [redacted]

Food shortages also contributed to the unrest in Yerevan, Estonia, and Murmansk during the past year.

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Strikes or demonstrations were reported in more than 20 Soviet cities for two years following the poor harvest in 1975. [REDACTED]

Premier Kosygin, writing last July in the journal of the State Planning Commission, directly tied the "satisfaction of demand" to the Commission's plan to raise labor productivity. In March, an unusually frank article by a Soviet sociologist in a prominent economics journal argued that large investments in more productive machinery will not increase productivity unless accompanied by sizable increases in goods available to the Soviet consumer. [REDACTED]

Moscow Sits Tight

The leadership nevertheless has shown little inclination to make difficult changes in policy, settling for stopgap grain imports and somewhat larger meat imports in 1980. Although nationwide rationing might shorten queues and provide a more equitable basis for distribution, it would be politically embarrassing. [REDACTED]

Higher retail prices for food also would help bring demand down in line with supply, but Moscow insists on stable prices for basic goods. The Soviet leaders could be apprehensive about possible consumer reaction to food price increases, which provoked riots in the USSR in 1962. [REDACTED]

Tighter restraints on growth of personal income also could reduce demand. Such restraints would be hard to enforce, however, during the coming period of serious labor shortages. [REDACTED]

The leadership hopes for a good harvest this year, but this alone will not solve the problem. Although prospects are good for an above-average grain crop of 210-220 million tons, near-record imports of about 30 million tons of grain will still be needed to raise the output of livestock products substantially above 1979 levels. Unless there are noticeable increases in livestock product consumption over several years, consumer discontent is likely to remain a problem for Moscow. [REDACTED]

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